



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

April 28, 2004

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10, United States Code, Section 2688, the Army is required to notify the appropriate committees of utilities privatization contracts awarded the previous quarter. This report is for the second quarter of Fiscal Year 2004.

The Army awarded utilities privatization contracts for the electrical systems at Fort Stewart and Hunter Army Airfield to Canoochee Electrical Membership Cooperative Corporation in March 2004.

A summary of the economic analysis supporting privatization is enclosed. Privatization is expected to result in an estimated annual cost avoidance of \$0.553 million compared to the cost of continued Government ownership

Sincerely

A handwritten signature in black ink, appearing to read "William A. Armbruster", is positioned above the printed name.

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization and Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



**Department of the Army
Fort Stewart / Hunter Army Airfield
Privatization of the Electrical
Distribution System**

Economic Analysis Summary

March 2004

Executive Summary: The economic analysis conducted for the electrical distribution utility system at Fort Stewart / Hunter Army Airfield demonstrates that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the electrical distribution system resulted in an estimated annual cost avoidance of \$553,254 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System: The electric utility system at Fort Stewart / Hunter Army Airfield consists of approximately 199 miles of distribution circuits, 6,606 poles, 2,507 transformers, 3,575 streetlights, and approximately 2,395 service locations.

The majority of the Fort Stewart / Hunter Army Airfield electric distribution system serves the Fort Stewart cantonment and main post areas. On Hunter Army Airfield the system serves a small area. The system is characterized as "urban" with medium-to-high customer density. It has the typical service elements as that of a small city (light industrial, commercial, and residential loads). Power is purchased from Georgia Power Company, the Savannah Electric Company, and the Canoochee Electrical Membership Corporation (CEMC).

The system has a useful life of 35 years, and is maintained by a government workforce of 13.24 FTEs.

Description of the Government's "Should Cost" estimate (SCE): The Government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the electrical distribution utility system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the electrical distribution utility system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility system in return for conveying the system to the contractor. The Government determined the fair market value to be \$1,470,092.

Procurement History:

1. The solicitation was issued in June 1999.
2. Five proposals were received and the Initial Source Selection Evaluation Board reviewed proposals in June 2000.
3. Negotiations were conducted with proposers between November 2000 and January 2001. At the end of this period, the Source Selection Evaluation Board determined that none of the proposals demonstrated an economic advantage to the government.

4. Based upon industry feedback, the Solicitation was modified and reissued in April 2001.
5. Four proposals were received. Evaluations, negotiations, and revised final proposals were received between July and September 2001.
6. In September 2001, the competitive range was established and CEMC was selected as the best value offeror.
7. In response to non-selectee protests, the solicitation was amended and revised proposals requested in March 2002.
8. Between May and June 2002, four proposals were received, reviewed and additional information obtained from the offerors. CEMC was selected as the best value offeror.
9. From October 2002 through June 2003 CEMC conducted a system condition assessment and updated the inventory and system maps.
10. Between June 2003 and November 2003, CEMC submitted a work plan and a revised price proposal. The government revised the "should cost" estimate based on the updated inventory.
11. The final decision package and economic analysis were completed in December 2003.

Life Cycle Cost Analysis (LCCA): The privatization alternatives were evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of each alternative were developed utilizing UPEAST 6.1. The results of the LCCA for Government Ownership and the Contractor Ownership Best Value Alternative are summarized in the following tables:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 80.922 M	\$ 4.391M		
Contractor Ownership	50	\$ 70.725M	\$ 3.838 M	\$.553 M	12.6%

Conclusions and Recommendations: Privatization of the Fort Stewart / Hunter Army Airfield Electrical Distribution Utility System is economical. Additionally, the following findings are provided:

1. The privatization of the Fort Stewart / Hunter Army Airfield Electrical Distribution Utility System will eliminate the need for the installation to perform these functions and will allow a firm whose competence is electrical distribution utility system operation and maintenance to operate and maintain the system.

2. The privatization of the Fort Stewart / Hunter Army Airfield Electrical Distribution Utility System assures the capability of future upgrades and additions to these systems.

3. This privatization action will be a cost-effective means to provide safe and reliable electrical distribution utility services to the sub-posts.